

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Horton Analyst: Kristina E. North Bill Number: AB 214

Related Bills: None Telephone: 845-6978 Introduced Date: January 29, 2003

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Veterans Quality of Life Fund

SUMMARY

This bill would establish the Veterans Quality of Life Fund.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to create an additional source of funding for the support of veterans' homes.

EFFECTIVE/OPERATIVE DATE

This bill would become effective January 1, 2004, and would apply to tax returns filed on or after that date.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal tax law provides a true checkoff to direct \$3 of a taxpayer's tax liability to the presidential election fund. Designation of the \$3 amount does not affect a taxpayer's tax liability or refund amount.

Current state tax law allows taxpayers to make contributions of their own funds (not tax liability) on their tax returns to the 11 voluntary contribution funds listed on the state tax return. Each fund provides for the reimbursement of the Franchise Tax Board's (FTB's) and the Controller's actual costs to administer the fund.

Except for the California Seniors Special Fund, which has no sunset date, the voluntary contribution funds have various sunset dates. Attachment I shows the specific sunset dates for each voluntary contribution fund and indicates that all funds, except the California Seniors Special Fund must meet a minimum contribution test (as indexed, if required) to remain on the return. Attachment II is a chart indicating the number and dollar amount of contributions to the funds for multiple fiscal years.

Board Position:

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| _____ S | _____ NA | _____ NP |
| _____ SA | _____ O | _____ NAR |
| _____ N | _____ OUA | _____ PENDING |

Department Director
Gerald H. Goldberg

Date
02/24/03

THIS BILL

This bill would establish the Veterans Quality of Life Fund and would allow taxpayers to designate their own funds (not tax liability) for contribution to the fund on their tax returns in full dollar amounts of \$1 or more. Each signatory on a joint return may make the contributions individually. The designations for any taxable year must be made on the initial return for the taxable year and, once made, are irrevocable.

This bill would require FTB to revise the personal income tax return to include a designation space for the fund beginning with the first taxable year another voluntary contribution fund is removed.

For the second taxable year the fund is on the return, this bill would require the fund to meet the \$250,000 minimum contribution test. FTB is required to estimate by September 1 of any calendar year after the first taxable year the fund appears on tax returns that contributions made under this bill will be less than \$250,000 (as indexed for inflation). The law authorizing designations for this fund would be repealed if contributions made under this bill will be less than the minimum contribution amount.

This bill would allow the voluntary contribution designation to remain on the tax return for five years unless a later enacted statute deletes or extends that date.

This bill would specify that if payments and credits reported on the return do not exceed the taxpayer's liability, then the taxpayer's return shall be treated as if no designation has been made. If no designee is specified, a designated contribution amount would be transferred to the General Fund.

This bill would require the Controller to transfer money designated for this fund by taxpayers from the Personal Income Tax Fund to the Veterans Quality of Life Fund. Upon appropriation by the Legislature, the moneys from the Veterans of Quality of Life Fund must be allocated to: 1) FTB and the Controller for reimbursement of costs incurred in administering this fund, and 2) the Department of Veterans Affairs for allocation in equal shares to each administrator of operational veterans' homes. The moneys allocated to operational veterans' homes must be used for nonrecurring events or items related to the maintenance or operation of the facilities.

It is the intent of the Legislature that this bill creates an additional funding source for veterans' home to supplement, not supplant, other funding.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

PROGRAM BACKGROUND

Eleven voluntary contribution funds appeared on the 2002 California personal income tax returns. Total contributions to these funds have varied from approximately \$3.4 million in 1989/1990 to approximately \$3.9 million in 2001/2002. The number of individuals contributing (first tabulated in 1993) remains fairly constant at approximately 140,000, or slightly less than 1% of all taxpayers.

OTHER STATES' INFORMATION

Illinois, Massachusetts, Michigan, Minnesota, and New York laws do not provide a voluntary contribution fund comparable to the voluntary contribution fund allowed by this bill. The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

The net revenue impact of this bill would be negligible since the addition of the Veterans Quality of Life Fund to the tax return requires the removal of an existing voluntary contribution designation.

Any possible changes in employment, personal income, or gross state product that might result from this measure are not taken into account.

Revenue Discussion

According to departmental data, the total amount of existing voluntary contributions to all funds was nearly \$4 million for fiscal year 2001/2002 with an average of \$280,000 per individual designated fund.

Assuming contributions equal or exceed the minimum contribution threshold (\$250,000), as adjusted for inflation, and all contributors itemize deductions, the annual revenue loss would be on the order of \$15,000 by applying an average marginal tax rate of 6%. This revenue loss would occur the year following the fund designation being placed on the tax return. Revenue savings from the elimination of an existing voluntary contribution fund would partially or wholly offset the revenue loss.

POLICY CONCERN

The placement of voluntary contributions on the tax return limits the amount of space available for tax-related items. The inclusion of non-tax related information could ultimately cause the tax form to become three pages, which is unprecedented among other states and the Internal Revenue Service. A three-page return also would cause the department to incur significant costs for printing, handling, and storage.

LEGISLATIVE STAFF CONTACT

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